

CITY OF HUDSON
LENAWEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
JUNE 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF HUDSON	County LENAWEE
Fiscal Year End JUNE 30, 2006	Opinion Date AUGUST 21, 2006	Date Audit Report Submitted to State OCTOBER 5, 2006	

We affirm that:

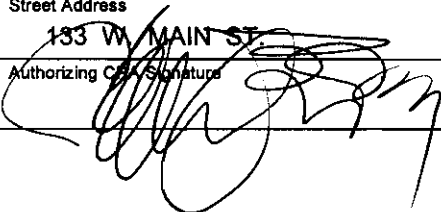
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) PHILIP R. RUBLEY, CPA		Telephone Number (517) 458-2274		
Street Address 133 W. MAIN ST.		City MORENCI	State MI	Zip 49256
Authorizing CPA Signature 		Printed Name PHILIP R. RUBLEY, CPA		License Number 9223

**CITY OF HUDSON
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2006**

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CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2006

Using This Annual Report

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of City of Hudson, Michigan government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

Overview Of The Financial Statements

The City's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The City maintains 15 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, ambulance, income tax, major street and local street each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds. The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2006

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation and community development. The business-type activities of the City include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority - the Local Development Finance Authority - for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Other Information

The City has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2006

The City As A Whole

The City's net assets for the year ended June 30, 2006 increased by 1.96% over the prior year, and management feels that even though the economic conditions have been slightly depressed, that the City was fiscally stable.

The governmental activities reflect net assets of \$4,234,783 and the business-type (utilities) of \$4,703,729.

By far the largest portion of the City's net assets (76 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2006

CITY OF HUDSON, MICHIGAN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2006</u>	<u>2006</u>	<u>2006</u>
<u>Revenue</u>			
Program Revenue:			
Charges for Services	\$1,097,719	\$ 524,049	\$1,621,768
Operating Grants and Contributions	182,305	---	182,305
Capital Grants and Contributions	76,524	---	76,524
General Revenue:			
Property Taxes	1,229,932	---	1,229,932
Grants and Contributions Not Restricted To Specific Program	287,524	---	287,524
Other	84,359	8,983	93,342
Total Revenue	<u>2,958,363</u>	<u>533,032</u>	<u>3,491,395</u>
<u>Expenses</u>			
General Government	566,729	---	566,729
Public Safety	665,845	---	665,845
Public Works	888,257	---	888,257
Community and Economic Development	21,389	---	21,389
Recreation and Culture	214,220	---	214,220
Interest on Long-Term Debt	17,143	42,408	59,551
Utilities Expenses	---	712,660	712,660
Other Functions	185,966	---	185,966
Total Expenses	<u>2,559,549</u>	<u>755,068</u>	<u>3,314,617</u>
Increase (Decrease) In Net Assets Before Transfers	<u>398,814</u>	<u>(222,036)</u>	<u>176,778</u>
Transfers In (Out)	<u>(105,832)</u>	<u>105,832</u>	<u>---</u>
Increase (Decrease) In Net Assets	<u>292,982</u>	<u>(116,204)</u>	<u>176,778</u>
Net Assets Beginning of Year	<u>5,482,878</u>	<u>3,543,282</u>	<u>9,026,160</u>
Net Assets End of Year	<u>\$5,775,860</u>	<u>\$3,427,078</u>	<u>\$9,202,938</u>

CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2006

CITY OF HUDSON, MICHIGAN NET ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2006</u>	<u>2006</u>	<u>2006</u>
Current and Other Assets	\$2,073,509	\$ 273,415	\$ 2,346,924
Capital Assets	<u>4,234,783</u>	<u>4,703,729</u>	<u>8,938,512</u>
Total Assets	<u>6,308,292</u>	<u>4,977,144</u>	<u>11,285,436</u>
Long-Term Liabilities Outstanding	465,000	1,521,665	1,986,665
Other Liabilities	<u>67,432</u>	<u>28,401</u>	<u>95,833</u>
Total Liabilities	<u>532,432</u>	<u>1,550,066</u>	<u>2,082,498</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	3,769,783	3,182,064	6,951,847
Restricted	194,709	14,878	209,587
Unrestricted	<u>1,811,368</u>	<u>230,136</u>	<u>2,041,504</u>
Total Net Assets	<u>\$5,775,860</u>	<u>\$3,427,078</u>	<u>\$ 9,202,938</u>

Government Activities

Government activities increased the City's net assets by \$292,982.

Business-Type Activities

Business-type activities (decreased) the City's net assets by (\$116,204).

The City's Funds

Our analysis of the City's funds begins on Page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

**CITY OF HUDSON, MICHIGAN
Management's Discussion and Analysis
June 30, 2006**

General Fund Budgetary Highlights

Differences between the original budget and amended budget were immaterial.

Capital Assets And Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$8,938,512 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current year was 2.14%.

Long-term debt of the City decreased by \$234,000 (see Note 8 of the basic financial statements). There was no new debt incurred in the fiscal year ended June 30, 2006.

Economic Factors And Next Year's Budget And Rates

The City's budget for 2006-2007 fiscal year has taken in consideration, the economic condition of the State of Michigan, anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses.

Contacting The City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 121 N. Church Street, Hudson, Michigan 49247.

PHILIP R. RUBLEY

– Certified Public Accountant –

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'s
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

August 21, 2006

Honorable Mayor and Members
Of The City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hudson, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hudson, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Hudson, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

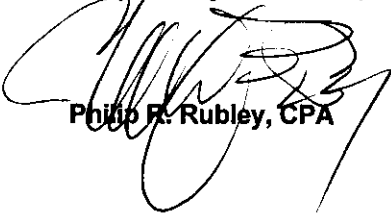
The management's discussion and analysis and budgetary comparison information on pages 1 through 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**City of Hudson
August 21, 2006**

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-Type Activities	Total	Component Unit
<u>Assets</u>				
Cash and Equivalents	\$1,819,292	\$ 49,638	\$ 1,868,930	\$2,277
Receivables - Net	288,262	150,398	438,660	---
Inventory	3,951	14,068	18,019	---
Prepaid Items and Other Assets	2,004	4,433	6,437	---
Internal Balances	(40,000)	40,000	---	---
Restricted Cash	---	14,878	14,878	---
Capital Assets Not Being Depreciated	150,000	33,600	183,600	---
Capital Assets Being Depreciated - Net	<u>4,084,783</u>	<u>4,670,129</u>	<u>8,754,912</u>	<u>---</u>
Total Assets	<u>6,308,292</u>	<u>4,977,144</u>	<u>11,285,436</u>	<u>2,277</u>
<u>Liabilities</u>				
Accounts Payable and Accrued Expenses	67,432	28,401	95,833	---
Long-Term Liabilities:				
Due Within One Year	85,000	75,000	160,000	---
Due In More Than One Year	<u>380,000</u>	<u>1,446,665</u>	<u>1,826,665</u>	<u>---</u>
Total Liabilities	<u>532,432</u>	<u>1,550,066</u>	<u>2,082,498</u>	<u>---</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	3,769,783	3,182,064	6,951,847	---
Restricted For Capital Projects	---	---	---	2,277
Debt Service Replacement	194,709	14,878	209,587	---
Unrestricted	<u>1,811,368</u>	<u>230,136</u>	<u>2,041,504</u>	<u>---</u>
Total Net Assets	<u>\$5,775,860</u>	<u>\$3,427,078</u>	<u>\$ 9,202,938</u>	<u>\$2,277</u>

CITY OF HUDSON, MICHIGAN
Government-wide Statement of Activities
For The Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
<u>Primary Government</u>					
<u>Governmental Activities:</u>					
General Government	\$ 566,729	\$ 571,897	\$ 7,129	\$ ---	\$ 12,297
Public Safety	665,845	365,858	1,052	---	(298,935)
Public Works	994,089	124,523	174,124	76,524	(618,918)
Community and Economic Development	21,389	---	---	---	(21,389)
Recreation and Culture	214,220	35,441	---	---	(178,779)
Interest on Long-Term Debt	17,143	---	---	---	(17,143)
Other Functions	185,966	---	---	---	(185,966)
Total Governmental Activities	<u>2,665,381</u>	<u>1,097,719</u>	<u>182,305</u>	<u>76,524</u>	<u>(1,308,833)</u>
<u>Business-Type Activities:</u>					
Utilities	755,068	524,049	105,832	---	(125,187)
Total Business-Type Activities	<u>755,068</u>	<u>524,049</u>	<u>105,832</u>	<u>---</u>	<u>(125,187)</u>
Total Primary Government	<u>\$3,420,449</u>	<u>\$1,621,768</u>	<u>\$288,137</u>	<u>\$76,524</u>	<u>\$ (1,434,020)</u>
<u>Component Unit:</u>					
Community Development	957	---	---	---	(957)
Total Component Unit	<u>\$ 957</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ (957)</u>

CITY OF HUDSON, MICHIGAN
Government-wide Statement Of Activities (Concluded)
For The Year Ended June 30, 2006

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<u>Changes In Net Assets</u>				
Net (Expense) Revenue	\$ (1,308,833)	\$ (125,187)	\$ (1,434,020)	\$ (956)
General Revenues:				
Tax Collections	1,229,932	---	1,229,932	2,587
Grants and Contributions Not Restricted To Specific Programs	287,524	---	287,524	---
Earnings and Rentals	<u>84,359</u>	<u>8,983</u>	<u>93,342</u>	<u>256</u>
Total General Revenues, Contributions and Transfers	<u>1,601,815</u>	<u>8,983</u>	<u>1,610,798</u>	<u>2,843</u>
Change In Net Assets	292,982	(116,204)	176,778	1,887
Net Assets, Beginning of Year	<u>5,482,878</u>	<u>3,543,282</u>	<u>9,026,160</u>	<u>390</u>
Net Assets, End of Year	<u>\$ 5,775,860</u>	<u>\$3,427,078</u>	<u>\$ 9,202,938</u>	<u>\$2,277</u>

CITY OF HUDSON, MICHIGAN
Governmental Funds
Balance Sheet
June 30, 2006

	<u>General Fund</u>	<u>Ambulance Fund</u>	<u>Income Tax Fund</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$624,830	\$ ---	\$487,022
Prepaid Expenses	---	---	---
Receivables - Net	121,363	92,457	4,678
Due From Other Funds	3,446	---	---
Receivable From Other Governments	36,174	---	---
Inventories	<u>3,951</u>	<u>---</u>	<u>---</u>
Total Assets	<u>\$789,764</u>	<u>\$92,457</u>	<u>\$491,700</u>
<u>LIABILITIES</u>			
Accounts Payable/Accrued Liabilities	\$ 38,707	\$ 2,395	\$ ---
Due to Other Funds	---	6,964	---
Deferred Revenue	<u>93,609</u>	<u>24</u>	<u>4,634</u>
Total Liabilities	<u>132,316</u>	<u>9,383</u>	<u>4,634</u>
<u>FUND BALANCES</u>			
Reserved for Debt Service	---	---	---
Unreserved	<u>657,448</u>	<u>83,074</u>	<u>487,066</u>
Total Fund Balances	<u>657,448</u>	<u>83,074</u>	<u>487,066</u>
Total Liabilities and Fund Balances	<u>\$789,764</u>	<u>\$92,457</u>	<u>\$491,700</u>

The notes to financial statements are an integral part of this statement.

Major Street Fund	Local Street Fund	Other Non-Major Governmental Funds	Total Governmental Funds
\$64,272	\$19,233	\$582,305	\$1,777,662
---	---	1,277	1,277
---	---	3,262	221,760
---	---	4,712	8,158
21,661	8,134	---	65,969
---	---	---	3,951
<u>\$85,933</u>	<u>\$27,367</u>	<u>\$591,556</u>	<u>\$2,078,777</u>
\$ 16	\$ 8	\$ 10,018	\$ 51,144
---	---	467	7,431
---	---	13,000	111,267
<u>16</u>	<u>8</u>	<u>23,485</u>	<u>169,842</u>
---	---	194,524	194,524
<u>85,917</u>	<u>27,359</u>	<u>373,547</u>	<u>1,714,411</u>
<u>85,917</u>	<u>27,359</u>	<u>568,071</u>	<u>1,908,935</u>
<u>\$85,933</u>	<u>\$27,367</u>	<u>\$591,556</u>	<u>\$2,078,777</u>

CITY OF HUDSON, MICHIGAN
Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds
To Net Assets Of Governmental Activities On The Statement of Net Assets
June 30, 2006

Fund Balances – Total Governmental Funds \$ 1,908,935

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add:	Capital Assets	7,920,001
Deduct:	Accumulated Depreciation	(3,798,717)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add:	Net assets of governmental activities accounted for in the internal service fund.	115,662
-------------	---	---------

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct:	Bonds and notes payable	(465,000)
Deduct:	Accrued interest on bonds	(1,228)
Deduct:	Compensated absences long-term	(15,060)

Revenue that has been billed as a receivable, but not collected until later years, was not reported in the funds.

Add:	Deferred Revenue	<u>111,267</u>
-------------	------------------	----------------

Net Assets of Governmental Activities	<u>\$ 5,775,860</u>
--	---------------------

CITY OF HUDSON, MICHIGAN
Governmental Funds
Statement of Revenue, Expenditures, and Changes In Fund Balances
For The Year Ended June 30, 2006

	<u>General Fund</u>	<u>Ambulance Fund</u>	<u>Income Tax Fund</u>
<u>REVENUES</u>			
Taxes	\$ 631,555	\$ 50,127	\$ 386,553
Intergovernmental	287,524	---	---
Grants	1,052	---	70,201
Licenses and Permits	10,438	---	---
Fines and Forfeitures	21,560	---	---
Charges for Services	132,893	230,214	---
Interest and Rentals	27,605	611	21,346
Contributions From Local Units	---	---	---
Other	487,898	---	---
Total Revenue	<u>1,600,525</u>	<u>280,952</u>	<u>478,100</u>
<u>EXPENDITURES</u>			
Current:			
General Government	327,524	---	63,478
Public Safety	303,207	209,507	---
Public Works	542,113	---	---
Community Economic Development	1,807	---	---
Recreation and Culture	---	---	---
Capital Outlay	115,906	8,632	68,582
Debt Service:			
Principal Payments	---	---	---
Interest Payments	---	---	---
Other Functions	185,966	---	---
Total Expenditures	<u>1,476,523</u>	<u>218,139</u>	<u>132,060</u>
Excess of Revenue Over (Under) Expenditures	124,002	62,813	346,040
Other Financing Sources (Uses)			
Transfers In	76,322	---	---
Transfers Out	(127,038)	---	(312,154)
Total Other Financing Sources (Uses)	<u>(50,716)</u>	<u>---</u>	<u>(312,154)</u>
Net Change In Fund Balances	73,286	62,813	33,886
Fund Balances – Beginning of Year	<u>584,162</u>	<u>20,261</u>	<u>453,180</u>
Fund Balances – End of Year	<u>\$ 657,448</u>	<u>\$ 83,074</u>	<u>\$ 487,066</u>

The notes to financial statements are an integral part of this statement.

<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ ---	\$ ---	\$ 230,876	\$1,299,111
126,491	47,633	3,629	465,277
4,692	1,631	---	77,576
---	---	---	10,438
---	---	27,328	48,888
---	---	105,301	468,408
584	117	34,096	84,359
---	---	3,500	3,500
<u>4,386</u>	<u>17,152</u>	<u>28,321</u>	<u>537,757</u>
 <u>136,153</u>	 <u>66,533</u>	 <u>433,051</u>	 <u>2,995,314</u>
 ---	 ---	37,404	428,406
---	---	54,946	567,660
119,385	117,195	---	778,693
---	---	19,582	21,389
---	---	199,541	199,541
147,478	8,954	31,699	381,251
---	---	65,000	65,000
---	---	17,328	17,328
<u>---</u>	<u>---</u>	<u>---</u>	<u>185,966</u>
 <u>266,863</u>	 <u>126,149</u>	 <u>425,500</u>	 <u>2,645,234</u>
 (130,710)	 (59,616)	7,551	350,080
 100,000	60,500	127,038	363,860
<u>(30,500)</u>	<u>---</u>	<u>---</u>	<u>(469,692)</u>
 <u>69,500</u>	 <u>60,500</u>	 <u>127,038</u>	 <u>(105,832)</u>
 (61,210)	884	134,589	244,248
 <u>147,127</u>	 <u>26,475</u>	 <u>433,482</u>	 <u>1,664,687</u>
 <u>\$ 85,917</u>	 <u>\$ 27,359</u>	 <u>\$ 568,071</u>	 <u>\$1,908,935</u>

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures,
And Changes In Fund Balances Of Governmental Statement Of Activities
June 30, 2006

Net Change In Fund Balances – Total Governmental Funds

\$ 244,248

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital Outlay	358,807
----------------------------	---------

Deduct: Depreciation Expense	(340,395)
-------------------------------------	-----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increase long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: Principal payments on long-term liabilities	65,000
---	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: Decrease in interest payable on bonds and notes	185
---	-----

Add Decrease compensated absences long-term	2,088
--	-------

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: Increase in net assets of governmental activities accounted for in the internal service fund	32,228
--	--------

Revenue deferred on the governmental funds report, which has been charged to receivable and thus income on the statement of activities

(69,179)

Change In Net Assets Of Governmental Activities

\$ 292,982

CITY OF HUDSON, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Business-Type Activities - Enterprise Funds	Governmental Activities
	Utilities Fund	Internal Service Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 34,079	\$ 57,189
Due from Other Funds	40,229	---
Accounts Receivable	150,398	533
Premium on Bonds	---	---
Inventory	14,068	---
Prepaid Interest	4,204	---
Noncurrent Assets:		
Restricted Cash	14,878	---
Property and Equipment - Net	<u>4,703,729</u>	<u>113,499</u>
Total Noncurrent Assets	<u>4,718,607</u>	<u>113,499</u>
Total Assets	<u>\$4,961,585</u>	<u>\$171,221</u>
Liabilities		
Current Liabilities:		
Due to Other Funds	\$ ---	\$ 40,000
Accounts Payable and Accrued Liabilities/Deposits	25,884	---
Accrued Equipment Rent	250	---
Bonds Payable, Current Portion	<u>75,000</u>	<u>---</u>
Total Current Liabilities	<u>101,134</u>	<u>40,000</u>
Noncurrent Liabilities:		
Bonds Payable	1,446,665	---
Compensated Absences	<u>2,267</u>	<u>---</u>
Total Noncurrent Liabilities	<u>1,448,932</u>	<u>---</u>
Total Liabilities	<u>1,550,066</u>	<u>40,000</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,182,064	113,499
Restricted for Replacement	14,878	---
Unrestricted (Deficit)	<u>214,577</u>	<u>17,722</u>
Total Net Assets	<u>3,411,519</u>	<u>\$131,221</u>
Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds	<u>15,559</u>	
Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets	<u>\$3,427,078</u>	

CITY OF HUDSON, MICHIGAN
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Operating Revenues		
Charges for Services	\$ 509,367	\$ 81,916
Liabilities		
Salaries and Wages	93,501	---
Fringe Benefits	37,385	---
Office Expenses	196,370	11,149
Contractual Services	5,234	103
Supplies and Materials	81,048	36,715
Utilities	71,291	---
Depreciation	222,233	24,483
Other Expenses	5,598	14
Total Operating Expenses	<u>712,660</u>	<u>72,464</u>
Operating Income (Loss)	<u>(203,293)</u>	<u>9,452</u>
Non-Operating Revenues (Expenses)		
Investment Income	8,983	250
Interest Expense	(42,408)	---
Other - Miscellaneous	12,923	232
Total Non-Operating Revenues (Expenses)	<u>(20,502)</u>	<u>482</u>
Other Financing Sources		
Transfer In	105,832	---
Total Other Financing Sources	<u>105,832</u>	<u>---</u>
Income (Loss)	(117,963)	9,934
Net Assets, Beginning of Year	<u>3,529,482</u>	<u>121,287</u>
Net Assets, End of Year	<u>\$3,411,519</u>	<u>\$131,221</u>

CITY OF HUDSON, MICHIGAN
Reconciliation Of The Statement Of Revenues, Expenditures, To The Statement Of Activities
June 30, 2006

Change In Net Assets – All Enterprise Funds	\$ (117,963)
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An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

<u>1,759</u>

Change In Net Assets Of Business-Type Activities	<u>\$ (116,204)</u>
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CITY OF HUDSON, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For The Year Ended June 30, 2006

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 507,913	\$ ---
Cash Received Miscellaneous	---	82,414
Cash Payment to Suppliers For Goods and Services/Employees	<u>(458,923)</u>	<u>(67,981)</u>
Net Cash Provided (Used)	<u>48,990</u>	<u>14,433</u>
Cash Flows From Capital and Related Financing Activities		
Purchase of Capital Assets	(4,902)	---
Bond Principal Payments	(169,000)	---
Bond Interest Payments	<u>(45,899)</u>	<u>---</u>
Net Cash (Used) by Capital and Related Financing Activities)	<u>(219,801)</u>	<u>---</u>
Cash Flows From Investing Activities		
Investment Income	8,983	250
Transfers from Other Funds	<u>105,832</u>	<u>---</u>
Net Cash Provided (Used) by Investing Activities	<u>114,815</u>	<u>---</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(55,996)	14,683
Cash and Cash Equivalents, Beginning of Year	<u>104,953</u>	<u>42,506</u>
Cash and Cash Equivalents, End of Year	<u>\$ 48,957</u>	<u>\$ 57,189</u>
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	\$ 34,079	\$ 57,189
Restricted Cash and Cash Equivalents	<u>14,878</u>	<u>---</u>
	<u>\$ 48,957</u>	<u>\$ 57,189</u>

CITY OF HUDSON, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds	Governmental Activities
	<u>Utilities Fund</u>	<u>Internal Service Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$(117,963)	\$ 9,934
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	222,233	24,483
Changes in Assets and Liabilities:		
Accounts Receivable, Etc.	(14,377)	(288)
Accounts Payable, Accrued Liabilities, Bonds Current Portion	2,484	(20,000)
Other Assets	<u>23,262</u>	<u>554</u>
Net Cash Provided (Used) by Operating Activities	<u>115,639</u>	<u>14,683</u>
Cash Flows from Capital Activities:		
Acquisition of Capital Assets	<u>(4,902)</u>	<u>---</u>
Net Cash (Used) from Capital Activities	<u>(4,902)</u>	<u>---</u>
Cash Flows From Financing Activities:		
Principal Paid on Bonds	(169,000)	---
Compensated Absences	<u>2,267</u>	<u>---</u>
Net Cash (Used) from Financing Activities	<u>(166,733)</u>	<u>---</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(55,996)	14,683
Cash and Cash Equivalents, Beginning of Year	<u>104,953</u>	<u>42,506</u>
Cash and Cash Equivalents, End of Year	<u>\$ 48,957</u>	<u>\$ 57,189</u>

CITY OF HUDSON, MICHIGAN
Fiduciary Funds – Statement of Net Assets
June 30, 2006

	Employee Benefit Funds	Library Trust	Other Agency Funds
<u>Assets</u>			
Cash and Cash Equivalents	\$2,018	\$90,905	\$51,193
Interest Receivable	<u>---</u>	<u>---</u>	<u>---</u>
Total Assets	<u>\$2,108</u>	<u>\$90,905</u>	<u>\$51,193</u>
<u>Liabilities</u>			
Due to Other Funds	\$ 956	\$ ---	\$ ---
Other Payables	<u>1,062</u>	<u>38</u>	<u>51,193</u>
Total Liabilities	<u>\$2,018</u>	<u>38</u>	<u>\$51,193</u>
<u>Net Assets</u>			
Held In Trust for Library Operations		<u>\$90,867</u>	

CITY OF HUDSON, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds – Library Trust Fund
For The Year Ended June 30, 2006

Additions

Investment Income:	
Interest Earned	\$ 702
Contributions	<u>5,700</u>
Total Investment Income	<u>6,402</u>

Deductions

Library Books and Expense	<u>10,941</u>
Total Deductions	<u>10,941</u>

Excess Additions Over Deductions (4,539)

Net Assets Held in Trust, Beginning of Year 95,406

Net Assets Held in Trust, End of Year \$90,867

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Hudson, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

City of Hudson, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Units - The local development Finance Authority of the City of Hudson, Michigan (LDFA) is governed by a board consisting of members appointed by the City Manager (subject to City Council approval). The LDFA was formed to promote economic growth in the City of Hudson, Michigan pursuant to Public Act 281 of 1986. The City also has a downtown development authority.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Ambulance Fund is a special Revenue Fund that receives monies for contractual services and charges for the purpose of providing Advanced and Basic Life Support Services to the community.

The Income Tax Fund is a Special Revenue Fund that receives monies from residents, non-residents and businesses performing or operating within the City limits of Hudson, Michigan. These monies have been used for special projects, capital in nature.

The Major Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The Local Street Fund is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Utilities Fund accounts for acquisition, operation and maintenance of the City's waste water and water system.

Additionally, the government reports the following fund types:

The Agency Funds account for assets held by the City acting as an agent for individuals, private organizations, other governments and/or other funds.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds are also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets or Equity

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."
3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.
4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.
6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.
8. **Long-Term Obligations** – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. **Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. **Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of May of each year, the City Manager presents the proposed budget for review and holds public hearings and a final budget is adopted.

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the City Council.

- B. **Excess of Expenditures Over Appropriations In Budgeted Funds** - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2006, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
City Manager	\$70,800	\$70,895	\$ 95
Clerk	66,023	68,170	2,147
Public Safety:			
Police	295,573	299,765	4,192
Other Functions	166,377	185,966	19,589
Transfers to Other Funds	107,324	127,038	19,714
Public Works:			
Street Maintenance	518,944	542,113	23,169
Ambulance - Major Fund:			
Capital Outlay	---	8,632	8,632
Income Tax - Major Fund:			
Capital Outlay	---	68,582	68,582
Local Street - Major Fund:			
Public Works	115,001	119,385	4,384
Capital Outlay	100,000	147,478	47,478
Major Street - Major Fund:			
Public Works	67,823	117,195	49,372

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1:** Insured or registered, or securities held by the City or its agent in the City's name.
- Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3:** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Category 1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Checking, Certificate of Deposit and Savings	\$200,000	\$1,830,201	\$ ---	\$2,030,201	\$2,030,201
	<u>\$200,000</u>	<u>\$1,830,201</u>	<u>\$ ---</u>	<u>\$2,030,201</u>	<u>\$2,030,201</u>

Balance Sheet Cash And Cash Investments

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the City's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured (FDIC) (FSLIC)	\$ 200,000
Uninsured:	
Uncollateralized	<u>1,830,201</u>
Total	<u>\$2,030,201</u>

Total cash consist of: Cash and cash investments of \$1,868,930 and restricted cash of \$14,878.

Component is all insured by FDIC for total amount of \$2,277 and included in cash. Cash also consists of Agency Funds of \$144,116.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Other	\$ 150,000	\$ ---	\$ ---	\$ 150,000
	<u>150,000</u>	<u>---</u>	<u>---</u>	<u>150,000</u>
Capital Assets, Being Depreciated:				
Buildings	1,676,732	---	---	1,676,732
Vehicles	1,495,657	---	---	1,495,657
Equipment	1,254,813	137,293	---	1,392,106
Infrastructure	3,712,984	221,514	---	3,934,498
Total Capital Assets Being Depreciated	<u>8,140,186</u>	<u>358,807</u>	<u>---</u>	<u>8,498,993</u>
Less Accumulated Depreciation For:				
Buildings	(573,804)	(35,452)	---	(609,256)
Vehicles	(512,859)	(78,748)	---	(591,607)
Equipment	(798,267)	(73,626)	---	(871,893)
Infrastructure	(2,188,885)	(152,569)	---	(2,341,454)
Total Accumulated Depreciation	<u>(4,073,815)</u>	<u>(340,395)</u>	<u>---</u>	<u>(4,414,210)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,066,371</u>	<u>18,412</u>	<u>---</u>	<u>4,084,783</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,216,371</u>	<u>\$ 18,412</u>	<u>\$ ---</u>	<u>\$ 4,234,783</u>
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 33,600	\$ ---	\$ ---	\$ 33,600
	<u>33,600</u>	<u>---</u>	<u>---</u>	<u>33,600</u>
Capital Assets, Being Depreciated:				
Buildings and Systems	8,296,259	2,625	---	8,298,884
Equipment	408,184	2,277	---	410,461
Total Capital Assets Being Depreciated	<u>8,704,443</u>	<u>4,902</u>	<u>---</u>	<u>8,709,345</u>
Less Accumulated Depreciation For:				
Buildings	(3,545,545)	(212,454)	---	(3,757,999)
Equipment	(271,438)	(9,779)	---	(281,217)
Total Accumulated Depreciation	<u>(3,816,983)</u>	<u>(222,233)</u>	<u>---</u>	<u>(4,039,216)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,887,460</u>	<u>(217,331)</u>	<u>---</u>	<u>4,670,129</u>
Business Type Activities Capital Assets, Net	<u>\$ 4,921,060</u>	<u>\$ (217,331)</u>	<u>\$ ---</u>	<u>\$ 4,703,729</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General Government	\$ 40,442
Public Safety	113,904
Public Works	146,887
Culture and Recreation	14,679
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>24,483</u>

Total Depreciation Expense Governmental Activities	<u>\$340,395</u>
---	-------------------------

Business-Type Activities:

Utilities	<u>\$222,233</u>
-----------	------------------

Total Depreciation Expense Business-Type Activities	<u>\$222,233</u>
--	-------------------------

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2006, the following were interfund receivables and payables in the fund statement.

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 3,446	\$ ---
Benefit	---	956
Internal Service	---	40,000
Utilities	40,229	---
Fire	---	467
Debt Service Fund	4,712	---
Ambulance	<u>---</u>	<u>6,964</u>
	<u>\$48,387</u>	<u>\$48,387</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

NOTE 6 – TRANSFERS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 76,322	\$127,038
Income Tax	---	312,154
Major Street	100,000	30,500
Local	60,500	---
Library	103,129	---
Utilities	105,832	---
Fire	16,260	---
Cemetery	<u>7,649</u>	<u>---</u>
	<u>\$469,692</u>	<u>\$469,692</u>

NOTE 7 – PROPERTY TAXES:

The City bills and collects its own property taxes and also taxes for the County and several School Districts within its jurisdiction. Collections and remittances of the County and School taxes are accounted for in the Current Tax Collection Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

Property taxes are assessed December 31st and are levied on June 1st. Taxes become delinquent on August 31st with a 1% interest charge beginning October 1st. All delinquent taxes are charged with a 4% penalty.

The City currently levies 10.6419 mills. Property taxes attach as an enforceable lien on the property as of January 1.

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

NOTE 8 – LONG TERM DEBT

Long-term debt consists of the following:

	<u>Balance</u> <u>July 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2006</u>
Bonds Payable - 2004 Local Development Refunding Bonds - General Obligation Limited Tax	\$ 530,000	\$ ---	\$ 65,000	\$ 465,000
Bonds Payable - Waste Water Treatment Plant - 1995	99,000	---	99,000	---
Bonds Payable - 2001 Drinking Water Program	<u>1,591,665</u>	<u>---</u>	<u>70,000</u>	<u>1,521,665</u>
Total	<u>\$2,220,665</u>	<u>\$ ---</u>	<u>\$234,000</u>	<u>\$1,986,665</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

City of Hudson – Drinking Water Bond Issue

Title of Issue: City of Hudson Drinking Water Program General
Obligation Bonds

Purpose: Drinking Water, etc.

Date of Issue: June 28, 2001

Interest Rate: 2.50%

Interest Payable: Semi-Annual on October 1, and April 1, of each year

Amount of Issue: \$1,731,665

Available Funds: \$38,335

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
October 1, 2006	\$ 93,245	\$ 18,245	\$ 75,000
April 1, 2007	17,308	17,308	
October 1, 2007	92,308	17,308	75,000
April 1, 2008	16,370	16,370	
October 1, 2008	96,370	16,370	80,000
April 1, 2009	15,370	15,370	
October 1, 2009	95,370	15,370	80,000
April 1, 2010	14,370	14,370	
October 1, 2010	94,370	14,370	80,000
April 1, 2011	13,370	13,370	
October 1, 2011	98,370	13,370	85,000
April 1, 2012	12,308	12,308	
October 1, 2012	97,308	12,308	85,000
April 1, 2013	11,245	11,245	
October 1, 2013	101,245	11,245	90,000
April 1, 2014	10,120	10,120	
October 1, 2014	100,120	10,120	90,000
April 1, 2015	8,995	8,995	
October 1, 2015	103,995	8,995	95,000
April 1, 2016	7,808	7,808	
October 1, 2016	102,808	7,808	95,000
April 1, 2017	6,620	6,620	
October 1, 2017	106,620	6,620	100,000
April 1, 2018	5,370	5,370	
October 1, 2018	105,370	5,370	100,000
April 1, 2019	4,120	4,120	
October 1, 2019	109,120	4,120	105,000
April 1, 2020	2,870	2,870	
October 1, 2020	107,870	2,870	105,000
April 1, 2021	1,495	1,495	
October 1, 2021	111,495	1,495	110,000
April 1, 2022	120	120	
October 1, 2022	71,785	120	71,665
	<u>\$1,835,628</u>	<u>\$313,963</u>	<u>\$1,521,665</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

Industrial Park Bonds

Title of Issue: 2004 Local Development Refunding Bonds - General Obligation Limited Tax
Purpose: Park Development
Date of Issue: December 1, 2004
Maturity Date: June 1, 2012
Interest Rate: 1.5% to 3.875%
Interest Payable: Semi-Annually
Amount of Issue: \$590,000

<u>Due Dates</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
December 1, 2006	\$ 7,746	\$ 7,746	\$
June 1, 2007	92,746	7,746	85,000
December 1, 2007	6,683	6,683	
June 1, 2008	86,683	6,683	80,000
December 1, 2008	5,543	5,543	
June 1, 2009	85,543	5,543	80,000
December 1, 2009	4,263	4,263	
June 1, 2010	4,263	4,263	---
December 1, 2010	4,263	4,263	
June 1, 2011	4,263	4,263	---
December 1, 2011	4,263	4,263	
June 1, 2012	<u>224,263</u>	<u>4,263</u>	<u>220,000</u>
	<u>\$530,522</u>	<u>\$65,522</u>	<u>\$465,000</u>

Maturities of Long-Term Debt

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2007	\$ 160,000
2008	155,000
2009	160,000
2010	80,000
2011	80,000
There After	<u>1,351,665</u>
	<u>\$1,986,665</u>

CITY OF HUDSON, MICHIGAN
Notes to Financial Statements
June 30, 2006

NOTE 9 – CAFETERIA PLAN – MEDICAL REIMBURSEMENT PLAN – DEPENDENT CARE PLAN

The City of Hudson has approved and adopted the Cafeteria Plan, Medical Expense Reimbursement Plan and Dependent Care Assistance Plan to be effective January 1, 1998.

The City of Hudson adopted a Cafeteria Plan under Internal Revenue Service Code SS 125, a Medical Expense Reimbursement Plan under code SS 105 (b) and an Dependent Care Assistance Plan Under Code SS 129. Each full-time employee is eligible to participate in each of the plans established. The maximum reimbursement for which any participant may apply under the Medical Expense Reimbursement Plan is \$3,000. The maximum reimbursement for which any participant may apply under the Dependent Care Assistance Plan is \$5,000.

The City of Hudson does not contribute to the Cafeteria Plan.

NOTE 10 – PENSION PLAN

The City of Hudson has a qualified 401(k) plan, administered by ICMA-RC.

Contributions are made by the City and employees. The Plan is blended between growth funds, cash management and government investments. Value in the 401k plan at December 31, 2006 was \$518,401. Contribution by the City for calendar year 2006 was \$47,947 and distribution was \$16,366.

NOTE 11 – OTHER INFORMATION

Risk Management

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
General Fund
For The Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$ 584,162	\$ 584,162	\$ 584,162	\$ ---
Taxes and Assessments	654,914	654,914	631,555	(23,359)
Intergovernmental	260,195	260,195	287,524	27,329
Grants	800	800	1,052	252
Licenses and Permits	16,200	16,200	10,438	(5,762)
Fines and Forfeitures	10,500	10,500	21,560	11,060
Charges for Services	110,450	110,450	132,893	22,443
Interest and Rentals	5,000	5,000	27,605	22,605
Other	437,200	437,200	487,898	50,698
Transfers from Other Funds	<u>80,000</u>	<u>80,000</u>	<u>76,322</u>	<u>(3,678)</u>
 Amounts Available for Appropriation	 <u>2,159,421</u>	 <u>2,159,421</u>	 <u>2,261,009</u>	 <u>101,588</u>
 <u>Charges to Appropriations (Outflows)</u>				
General Government				
City Council	14,598	14,598	10,115	4,483
City Manager	70,800	70,800	70,895	(95)
Office	84,610	84,610	83,727	883
Treasurer	59,068	59,068	58,941	127
Assessing	16,800	16,800	15,366	1,434
Clerk	66,023	66,023	68,170	(2,147)
Elections	4,725	4,725	2,000	2,725
City Attorney	12,000	12,000	5,407	6,593
Buildings and Grounds	13,800	13,800	12,903	897
 Public Safety				
Police	295,573	295,573	299,765	(4,192)
Inspections	15,500	15,500	3,442	12,058
 Community Economic Development	 3,267	 3,267	 1,807	 1,460
 Public Works				
Street Maintenance & Lighting	518,944	518,944	542,113	(23,169)
 Capital Outlay	 125,850	 125,850	 115,906	 9,944
 Other Functions	 166,377	 166,377	 185,966	 (19,589)
 Transfers to Other Funds	 <u>107,324</u>	 <u>107,324</u>	 <u>127,038</u>	 <u>(19,714)</u>
 Total Charges to Appropriations	 <u>1,575,259</u>	 <u>1,575,259</u>	 <u>1,603,561</u>	 <u>(28,302)</u>
 Ending of Year Fund Balance	 <u>\$ 584,162</u>	 <u>\$ 584,162</u>	 <u>\$ 657,448</u>	 <u>\$ 73,286</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Ambulance Fund (Major Special Revenue Funds)
For The Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>	\$ 20,261	\$ 20,261	\$ 20,261	\$ ---
<u>Resources (Inflows)</u>				
Taxes	111,545	111,545	50,127	(61,418)
Charges For Services	145,125	145,125	230,214	85,089
Other	1,000	1,000	---	(1,000)
Interest Income	<u>100</u>	<u>100</u>	<u>611</u>	<u>511</u>
 <u>Amounts Available for Appropriation</u>	 <u>278,031</u>	 <u>278,031</u>	 <u>301,213</u>	 <u>23,182</u>
 <u>Charges to Appropriations (Outflows)</u>				
<u>Public Safety</u>				
Ambulance	257,770	257,770	209,507	48,263
Capital Outlay	<u>---</u>	<u>---</u>	<u>8,632</u>	<u>(8,632)</u>
 <u>Total Charges to Appropriations</u>	 <u>257,770</u>	 <u>257,770</u>	 <u>218,139</u>	 <u>39,631</u>
 <u>Ending of Year Fund Balance</u>	 <u>\$ 20,261</u>	 <u>\$ 20,261</u>	 <u>\$ 83,074</u>	 <u>\$ 62,813</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Income Tax Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$453,180	\$453,180	\$ 453,180	\$ ---
Taxes	335,607	335,607	386,553	50,946
Interest and Rentals	4,000	4,000	21,346	17,346
Grant - CDBG	---	---	70,201	70,201
 Amounts Available for Appropriation	 <u>792,787</u>	 <u>792,787</u>	 <u>931,280</u>	 <u>138,493</u>
 <u>Charges to Appropriations (Outflows)</u>				
General Government	63,775	63,775	63,478	297
Transfers to Other Funds	345,832	345,832	312,154	33,678
Capital Outlay	---	---	68,582	(68,582)
 Total Charges to Appropriations	 <u>409,607</u>	 <u>409,607</u>	 <u>444,214</u>	 <u>(34,607)</u>
 Ending of Year Fund Balance	 <u>\$383,180</u>	 <u>\$383,180</u>	 <u>\$ 487,066</u>	 <u>\$103,886</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Major Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$147,127	\$147,127	\$147,127	\$ ---
Intergovernmental	110,000	110,000	126,491	16,491
Interest and Rentals	400	400	584	184
Other	35,101	35,101	9,078	(26,023)
Transfers from Other Funds	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>---</u>
 Amounts Available for Appropriation	 <u>392,628</u>	 <u>392,628</u>	 <u>383,280</u>	 <u>(9,348)</u>
 <u>Charges to Appropriations (Outflows)</u>				
Public Works	115,001	115,001	119,385	(4,384)
Transfers to Other Funds	30,500	30,500	30,500	---
Capital Outlay	<u>100,000</u>	<u>100,000</u>	<u>147,478</u>	<u>(47,478)</u>
 Total Charges to Appropriations	 <u>245,501</u>	 <u>245,501</u>	 <u>297,363</u>	 <u>(51,862)</u>
 Ending of Year Fund Balance	 <u>\$147,127</u>	 <u>\$147,127</u>	 <u>\$ 85,917</u>	 <u>\$ (61,210)</u>

CITY OF HUDSON, MICHIGAN
Budgetary Comparison Schedule
Local Street Fund (Major Special Revenue Fund)
For The Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<u>Beginning of Year Fund Balance</u>				
Resources (Inflows)	\$ 26,475	\$ 26,475	\$ 26,475	\$ ---
Intergovernmental	35,500	35,500	47,633	12,133
Other	1,823	1,823	18,783	16,960
Transfers from Other Funds	60,500	60,500	60,500	---
Interest Income	---	---	117	117
Amounts Available for Appropriation	<u>124,298</u>	<u>124,298</u>	<u>153,508</u>	<u>29,210</u>
<u>Charges to Appropriations (Outflows)</u>				
Public Works	67,823	67,823	117,195	(49,372)
Capital Outlay	<u>30,000</u>	<u>30,000</u>	<u>8,954</u>	<u>21,046</u>
Total Charges to Appropriations	<u>97,823</u>	<u>97,823</u>	<u>126,149</u>	<u>(28,326)</u>
Ending of Year Fund Balance	<u>\$ 26,475</u>	<u>\$ 26,475</u>	<u>\$ 27,359</u>	<u>\$ 884</u>

CITY OF HUDSON, MICHIGAN
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2006

	<u>Special Revenue Funds</u>		
	<u>Fire</u>	<u>Summer Recreation</u>	<u>Cemetery</u>
<u>Assets</u>			
Cash	\$111,621	\$10,936	\$43,183
Receivables:			
Accounts	---	1,135	179
Interest	---	---	---
Prepaid Expenses	1,277	---	---
Due from Other Funds	---	---	---
Total Assets	<u>\$112,898</u>	<u>\$12,071</u>	<u>\$43,362</u>
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 8	\$ 391	\$ ---
Deposits Payable	---	---	---
Accrued Liabilities	---	696	85
Deferred Revenues	---	---	13,000
Due to Other Funds	467	---	---
Total Liabilities	<u>475</u>	<u>1,087</u>	<u>13,085</u>
<u>Fund Balance</u>	<u>112,423</u>	<u>10,984</u>	<u>30,277</u>
Total Liabilities And Fund Balances	<u>\$112,898</u>	<u>\$12,071</u>	<u>\$43,362</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$3,521	\$ 99,447	\$119,010	\$192,922	\$1,665	\$582,305
450	---	---	---	---	1,764
13	781	695	---	9	1,498
---	---	---	---	---	1,277
---	---	---	4,712	---	4,712
<u>\$3,984</u>	<u>\$100,228</u>	<u>\$119,705</u>	<u>\$197,634</u>	<u>\$1,674</u>	<u>\$591,556</u>
\$ 54	\$ 537	\$ ---	\$ 3,110	\$ ---	\$ 4,100
2,206	---	---	---	---	2,206
8	2,923	---	---	---	3,712
---	---	---	---	---	13,000
---	---	---	---	---	467
<u>2,268</u>	<u>3,460</u>	<u>---</u>	<u>3,110</u>	<u>---</u>	<u>23,485</u>
<u>1,716</u>	<u>96,768</u>	<u>119,705</u>	<u>194,524</u>	<u>1,674</u>	<u>568,071</u>
<u>\$3,984</u>	<u>\$100,228</u>	<u>\$119,705</u>	<u>\$197,634</u>	<u>\$1,674</u>	<u>\$591,556</u>

CITY OF HUDSON, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes In Fund Balance
Non-Major Governmental Funds
For The Year Ended June 30, 2006

Special Revenue Funds

	<u>Fire</u>	<u>Summer Recreation</u>	<u>Cemetery</u>
<u>Revenues:</u>			
Taxes	\$ ---	\$ ---	\$ ---
Intergovernmental	---	---	---
Contribution from Local Units	---	---	---
Charges for Services	53,960	34,666	16,675
Fines and Forfeits	---	---	---
Interest and Rents	4,126	---	1,135
Other Revenue	<u>17,458</u>	<u>---</u>	<u>4,162</u>
Total Revenue	<u>75,544</u>	<u>34,666</u>	<u>21,972</u>
<u>Expenditures:</u>			
General Government	---	---	37,404
Public Safety	54,946	---	---
Recreational and Cultural	---	42,413	---
Community Economic Development	---	---	---
Capital Outlay	5,785	11,100	---
Debt Service:			
Principal	---	---	---
Interest	<u>---</u>	<u>---</u>	<u>---</u>
Total Expenditures	<u>60,731</u>	<u>53,513</u>	<u>37,404</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>14,813</u>	<u>(18,847)</u>	<u>(15,432)</u>
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	16,260	---	7,649
Operating Transfers (Out)	<u>---</u>	<u>---</u>	<u>---</u>
Total Other Financing Sources (Uses)	<u>16,260</u>	<u>---</u>	<u>7,649</u>
<u>Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses)</u>	<u>31,073</u>	<u>(18,847)</u>	<u>(7,783)</u>
<u>Beginning Fund Balance</u>	<u>81,350</u>	<u>29,831</u>	<u>38,060</u>
<u>Ending Fund Balance</u>	<u>\$112,423</u>	<u>\$ 10,984</u>	<u>\$ 30,277</u>

The notes to financial statements are an integral part of this statement.

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	<u>Permanent Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>Community Center</u>	<u>Library</u>	<u>Museum</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	
\$ ---	\$ ---	\$ ---	\$230,876	\$ ---	\$230,876
---	3,629	---	---	---	3,629
---	3,500	---	---	---	3,500
---	---	---	---	---	105,301
---	27,328	---	---	---	27,328
13,341	5,656	7,611	2,164	63	34,096
57	70	6,574	---	---	28,321
<u>13,398</u>	<u>40,183</u>	<u>14,185</u>	<u>233,040</u>	<u>63</u>	<u>433,051</u>
---	---	---	---	---	37,404
---	---	---	---	---	54,946
13,257	132,583	11,288	---	---	199,541
---	---	---	19,582	---	19,582
4,814	10,000	---	---	---	31,699
---	---	---	65,000	---	65,000
---	---	---	17,328	---	17,328
<u>18,071</u>	<u>142,583</u>	<u>11,288</u>	<u>101,910</u>	<u>---</u>	<u>425,500</u>
<u>(4,673)</u>	<u>(102,400)</u>	<u>2,897</u>	<u>131,130</u>	<u>63</u>	<u>7,551</u>
---	103,129	---	---	---	127,038
---	---	---	---	---	---
<u>---</u>	<u>103,129</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>127,038</u>
(4,673)	729	2,897	131,130	63	134,589
<u>6,389</u>	<u>96,039</u>	<u>116,808</u>	<u>63,394</u>	<u>1,611</u>	<u>433,482</u>
<u>\$ 1,716</u>	<u>\$ 96,768</u>	<u>\$119,705</u>	<u>\$194,524</u>	<u>\$1,674</u>	<u>\$568,071</u>

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF
AMERICAN INSTITUTE OF C.P.A.'S
& THE MICHIGAN ASSOCIATION OF C.P.A.'S

August 21, 2006

**Honorable Mayor and Members
Of The City Council
City of Hudson
121 N. Church St.
Hudson, Michigan 49247**

We have examined the combined financial statements of the City of Hudson, Michigan and the combining, individual fund and account group financial statements of the City as of and for the year ended June 30, 2006 and have issued our report thereon dated August 21, 2006. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the City's system of internal accounting control for the year ended June 30, 2006, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

1. CAPITAL ASSETS

It will be necessary to keep track of all disposed, traded and purchased assets over \$1500 for the fixed assets schedule of the City.

City of Hudson
August 21, 2006

2. **BUDGETING**

A budgeting schedule reflecting changes made per line item from original budget must be maintained.

3. **PAYMENTS OF EXPENDITURES**

Because of your policy all expenditures meeting the policy requirements must be approved prior to payment. Also do not pay bills from statements received by vendors, only invoices.

4. **UTILITY RATES**

Consider raising the usage rate or ready to service fee. Presently your cash flow has decreased at the same rate or amount over the last few years, and you will develop a problem in about a year.

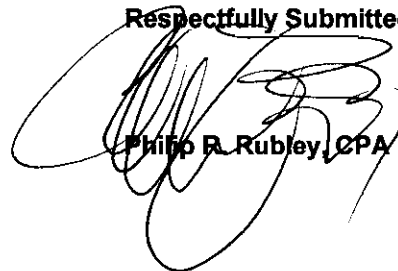
5. **LDFA**

Setup a separate fund from your existing Industrial Park Fund for recaptured taxes for this separate component unit, above the bonded debt requirements.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated August 21, 2006, on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,

A large, stylized handwritten signature in black ink, appearing to read 'Philip R. Rubley'.

Philip R. Rubley, CPA

PRR/cab